



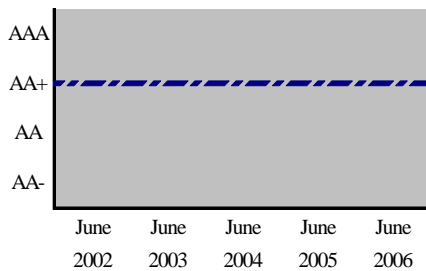
METROPOLITAN BANK LIMITED (MBL)

Ratings (June 2006) Metropolitan Bank Limited

	New	Previous
Entity*		
Long Term	AA+	AA+
Short Term	A1+	A1+

* These ratings are placed on **Rating Watch** pending outcome of the expected merger with Pakistan Operations of Habib Bank AG Zurich.

L.T Entity Rating History



Financial Data

PKR (mln)

	31-Dec-05	31-Dec-04
Total Assets	79,665.9	67,890.5
Equity	5,033.5	3,568.2
Net Income	1,465.3	815.5
ROA %	1.99	1.29
ROE %	34.07	25.80
Equity/ total assets %	6.32	5.26
SBP CAR %	10.67	9.24

Analysts

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Rating Rationale Assessment

- The ratings reflect MBL’s outstanding asset quality and consistently robust performance. Meanwhile, the management’s quest for product innovation and technological upgradation helps to maintain MBL’s competitive edge in terms of service quality and operating efficiency. The ratings also factor in the potential benefits emerging from the proposed amalgamation with HBZ, which would further strengthen the bank’s competitive positioning. Meanwhile, MBL’s ratings are placed on Rating Watch pending the completion of the merger process.
- While MBL recorded growth in almost all business segments, credit growth remained at a slower pace compared to last year, with a decline in credit-to-deposit ratio. Though MBL’s focus remains on its inherent strength, trade financing, the management is also increasing its focus on retail banking. The bank continues to enhance branch productivity mainly through increased reliance on information technology. The network expansion targets remain modest with only four new branches opened in 05 increasing the total to 51 by end-05. The proposed acquisition of HBZ branches would further increase the network but could also lead to some branch mergers and relocation.
- During 2005, benefiting from the increasing interest rate trends, MBL, managed to improve its spreads. Credit growth coupled with improved interest margin led to a substantial improvement in the bank’s net interest revenue. Other operating income, mainly driven by income from dealing in foreign currencies and fee-based income, also augmented the bottom line. Although operating costs increased due largely to the branch expansion, growth in revenues outpaced the growth in expenses. Thus the bank’s profitability, measured by ROA and ROE, registered a substantial improvement reaching to a record high level. These performance indicators are generally in line with those of well performing peers.
- Going forward, owing to pressure on spreads profitability would largely remain volume driven in rapidly changing dynamics of banking industry. For credit expansion, the bank is also focusing on consumer financing and Islamic banking. With regards to the future business diversification, establishment of an asset management company and undertaking margin financing are under consideration. As part of the management’s recent strategic initiative, an e-salary product has been launched whereby payroll of corporate clients are electronically handled. This product, in addition to providing fee income to bank, will also provide target customers for consumer financing. All these steps taken by the management would inevitably have positive impact on the bank’s profitability and market positioning.
- MBL’s asset quality continues to remain very strong, a reflection of conservative risk management process combined with consistent moderate loan growth. The bank, being vigilant of the need to strengthen the risk management framework, has adopted a more structured approach. A separate risk management department has been established to further tighten controls, thereby minimizing both credit and operational risks. Since last year, the bank has made significant upgradation on its core banking software, in the wake of ongoing implementation of the Basel-II framework. This also includes establishment of revised Credit Risk Management Policy, which is expected to be completed in 3Q2006.
- MBL is well capitalized and its equity-to-total assets ratio remains strong relative to peers. The bank’s CAR improved to 11% compared to the previous level of 9% on account of hefty increase in the tier 1 capital through organic growth. Going forward, the issuance of new shares to HBZ is expected to further strengthen the capital structure.

Background

- MBL, commencing operations in 1992, is listed on all bourses of Pakistan. The bank enjoys close institutional relationship with Habib Group (HG) entities in the financial sector. This provides inherent strength to the bank given the high credibility and standing of HG in the financial and corporate sectors. The Chief Executive of the bank is a former Governor of the State Bank and also a former president of Habib Bank Limited, one of the largest banks in the country. A highly professional team of senior executives including the executive director, who has emerged as the key professional in evolving the bank’s strategy as well as its implementation, assists the chief executive.
- By the end of 2006, Habib Bank AG Zurich Pakistan branches are proposed to be merged with and into MBL. Consequently, HBZ will become the major shareholder of the merged entity. HBZ, incorporated in Switzerland, has a network of fifty-one branches covering eight countries. The bank is ranked 687 among global banks, and is 28th largest bank in Switzerland. In Pakistan, HBZ operates as a foreign bank with a network of twenty-two branches. The merging entity carries out the same activities as MBL, with the advantage of the backing of strong parent and world-class technologies. This suggests that the merger will lend further strength to the relative positioning and brand value of the combined entity.

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